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RUEATRS/DEPT OF TREASURY WASHINGTON DC
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S E C R E T SECTION 01 OF 02 RPO DUBAI 000494

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TAGS: ECON IR PGOV PREL

SUBJECT: IRAN: IRGC CONSTRUCTION UNIT WINS ANOTHER BIG TENDER

REF: A. A. RPO DUBAI 394
1B. B. RPO DUBAI 409

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CLASSIFIED BY: Alan Eyre, Director, Iran Regional Presence Office, DoS.

REASON: 1.4 (b), (d), (e)

1. (C) SUMMARY: On November 11 the IRGC's Khatamolanbia Construction Company (Gharargah Sazandegi Khatam-ol Anbia - GHORB), won a USD 2.5 billion tender to build a railway network in southeastern Iran, beating out six other bidders, five of which included foreign partners. This award follows recent acquisitions by the IRGC in Iran's telecommunication and banking industries, and further demonstrates the IRGC's growing economic strength and the diversification of its business interests. In many sectors, IRGC-affiliated companies are increasingly becoming the de facto lead on all government contracts, though given the large number of contracts and the breadth of expertise required to service them, IRGC companies often subsequently sub-contract out tenders after winning them. As a result, collecting commissions for many projects it ultimately re-tenders is becoming a fundamental part of the IRGC business model. Similarly, the IRGC is evolving into the investor of first choice in the government's ongoing 'divestment' of state-owned enterprises (ref A). END SUMMARY.

IRGC RAILROADS ITS WAY IN

12. (SBU) On November 11, Roads and Transportation Minister Hamid Behbahani announced that the IRGC's contracting subsidiary, Khatamolanbia Construction Company (Gharargah Sazandegi Khatam-ol Anbia - GHORB), had won a USD 2.5 billion contract to build a rail network in the Chabahar Free Zone in Sistan va Baluchestan province in southeastern Iran. The project will be completed in three phases and aims to have an annual capacity of 20 million tons of freight. According to state media, other bidders included the Ports and Maritime Organization of Iran, a Japanese-Iranian consortium, a Chinese-Iranian consortium, and three foreign companies. GHORB previously won a contract to develop the Chahabar port as well as a major road project in the province, both high-priority development items for the government.

13. (C) Behbahani pre-empted questions about why IRGC won by focusing some of his remarks on national security, a reason

cited in the past when non-IRGC bidders have been disqualified. In making his announcement, Behbahani said the free zone and Iran's coasts, in general, had been neglected for too long. Developing the coast line through such infrastructure projects was critical for "national security" and to fight against "exploitative countries" who want "to prevent Iranian development," he argued.

¶4. (C) This IRGC rail tender win reflects a growing and more obvious political bias in favor of IRGC in the awarding of government contracts. In previous bids, domestic, private-sector bidders complained that IRGC subsidiaries held an unfair advantage based on unfettered access to lines of credit through government banks. In this case, domestic private-sector bidders teamed up with foreign companies with access to capital and rail expertise in an attempt to compete. As a result, Middle East Economic Digest reported October 23 that the Chabahar project looked likely to go for USD 2 billion to a consortium which included a Chinese rail engineering firm as well as Chinese financing. Ultimately though, the government chose the GHORB at a USD 500 million premium with a total cost of USD 2.5 billion.

¶5. (C) IRPO business contacts have complained about the IRGC's encroachment in other projects. The Iranian owners of a large road construction company doing work throughout the country told IRPO that "the IRGC seems to be winning every tender since Ahmadinejad (was elected President)." The businessman also said that because of the IRGC's lock on construction projects, he had stopping bidding on government tenders directly.

THE IRGC EVOLVING BUSINESS MODEL

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¶6. (C) With its influence over the business tender decision-making process largely uncontested, the IRGC is now positioning itself as a required bureaucratic pass-through for all government works. Unable to keep up with all the work it is being awarded, it is subcontracting to its former competitors, which helps quiet discontent. The contact who quit bidding on government work said that instead of complaining publicly about the unfair process, he now bids on re-tenders offered by IRGC subsidiaries. Accordingly, more often than not, terms are dictated to him and the "profit margin is 40 to 50 percent less than bidding on the project directly," he claimed.

¶7. (C) This new process is not limited to IRGC wins for large engineering and construction contracts. The IRGC is outsourcing a myriad of other work, some of it intended for small companies and consultants. An Iranian business professor told EconOff recently that IRGC representatives contacted her through her students to complete a "small strategy consulting job, creating a quality-of-life and salary survey for re-located executives working at an oil refinery in a small city," which she refused.

¶8. (C) COMMENT: The IRGC's latest win of the Chabahar rail tender consolidates their control of almost all government works in this high-priority development zone. More importantly, it demonstrates the IRGC's multi-faceted domination of the economy. In essence, the IRGC is buttering both sides of the bread, i.e. using its access to easy government financing to win big public contracts while also generating revenue and new no-bid business from its growing stable of 'privatized' assets (refs A and B).

The Chabahar win has, so far, generated no public outcry even though competition for the bid was strong, signaling perhaps that a good part of the work will be sub-contracted to competitors. Outsourcing in this fashion also means detecting IRGC-backing on projects and certain assets is bound to become more difficult. END COMMENT

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